

High-Profile Focus: FORECAST 2009

Ensuring Bargain Buying Becomes a Value Proposition

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There is a silver lining in the current economic cloud – this is a great time to be a purchaser of design and construction services.

As a result of a worldwide slowdown, pressure has come off of commodity prices. Locally, the slowdown has resulted in increased competition for a reduced flow of work.



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In a climate such as this, it is tempting to award projects based solely on the lowest cost or bid for the work. The pricing may appear to be too good to be true, and like many things that are too good to be true, this approach can have some very serious flaws.

Take a look at perceived costs versus value. While cost is a major factor in the value received in any purchase, it is not the only factor. Given the complexities of most major capital projects there are many other goals and objectives to be met. Quality, safety, timeliness and risk avoidance come to mind as a few of the major ones. The same forces that are driving pricing down are driving risk up. While it truly is a buyer's market, only the wise buyer will get true value in the end.

Keep in mind the following to ensure your bargain becomes a value proposition:

1. Select a quality team. In this economy, the low bid firm may in fact also be the weakest financially or the most desperate. Pre-qualifying project participants is always important, but it is critical in times such as this. Owners should examine the financial underpinnings and technical capability of the firms they solicit. A detailed reference check will go a long way to-

ward guaranteeing performance once the work starts. Meeting the hands-on project team is also crucial. Facilities have become more and more specialized. It often takes a firm with experience in the specific needs of a job to perform well. Working in a school and working in a residence may look the same but they are two very different animals. Most often, the best results will be obtained from people who have had experience with the particular project type to be built.

2. Create a team that will collaborate. Designing and building a project is a problem-solving process. Inherent in that statement is the fact that the project team will face problems and will need to collaborate to solve them. In a difficult economy the

problems will only be worse. There may be shortages of material, suppliers and subcontractors may experience cash shortages, and reliable resources may become less dependable. The only way a team overcomes these obstacles is by working intensely together in a cooperative way to push through the issues and get the project built. Design-build is often a good solution when the project parameters are appropriate, as collaboration is an underlying assumption of this delivery system. Construction management, typically "at risk," is another good option as long as the team members function in an integrated manner that puts the interests of the project first.

3. Purchase from the entire marketplace. According to a Wharton School study, the construction industry in Massachusetts is 78% open shop and 22% unionized. A merit or open shop approach allows an owner access to the entire marketplace and results in the most value-driven, competitive pricing. Work is best awarded to pre-qualified firms based on merit defined by quality, safety, budget, schedule and service. The goal is to get the best resources on the project at the best price and to let them collaborate to solve problems and deliver value.

4. Document well. A good contract reflects the spirit of agreement reached by the parties. It is the compass that the team uses when serious problems occur. It is important that contracts are artfully drafted in tough times. This is not to say that the con-

tract has to be tough – it has to be wise, fair and well made. The contract should carefully spell out the duties that the parties have to each other and describe costs to be paid, schedules to be met, and remedies when concerns arise.

5. Stick together. If there was ever a time to stick together throughout a project, this is it. In addition to regularly scheduled project meetings, we like to have a monthly executive session that "takes the temperature" of all players and takes a global view of the progress of the work. It is much easier to stay of trouble than to get out of trouble and this session goes a long way toward keeping the job on track.

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